

**RTO West Stage 2 Development Process
Marketing Monitoring Content Group**

Working Document

January 31, 2001

I. Stage 1 Market Monitoring Decisions

The RTO West Market Monitoring Unit (“MMU”) is a separate component of the RTO organization that is accountable to the Board.

Initially, the MMU will actively monitor RTO West markets (market that it operates or administers), but will have the discretion to monitor such additional markets as it finds appropriate.

The RTO MMU has a monitoring and reporting role and leaves “enforcement” to other entities. When the MMU has detected “market performance that is inconsistent with a competitive market”, the MMU will investigate what caused the performance, and the RTO Board will decide whether such market performance will be reported to a regulatory agency. A Tariff Compliance Office will address compliance with the RTO tariff, rules, and procedures.

See Attachment 1, Appendix from Stage 1 Filing, for more specifics.

II. Scope of Stage 2 Market Monitoring Work

- A. The Stage 2 Market Monitoring work will be focused on drafting a market monitoring plan that incorporates the Stage 1 decisions.
- B. The Market Monitoring Content Group will also further develop their work regarding the following items as requested by FERC staff:
 - 1. How information will be collected and maintained (including confidentiality provisions);
 - 2. How non-RTO West markets will be periodically assessed;
 - 3. The specifics of MMU dissemination of information;
 - 4. Examples of when the RTO West Board, based upon the results of a MMU investigation, would report market performance to the Commission or other appropriate regulatory or enforcement agencies.
- C. CREPC’s issue regarding the ability of “regulatory and enforcement agencies of states, provinces and the federal government” to directly access information from

RTO West will also be addressed in Stage 2. (This issue was raised late in the Stage 1 process and, given timing concerns, it was deferred until Stage 2.) *See* Attachment 2, E-Mails Regarding CREPC Issue for background.

D. While the focus of the Market Monitoring Content Group’s production work will be detailing the Stage 1 decisions, the content group will also evaluate the evolution of market monitoring since the Stage 1 decisions to assess whether refinements should be made because of “lessons learned” or other factors. This work will include:

- (1) Reviewing the PJM and ISO-NE market monitoring plans and any FERC responses;
- (2) Reviewing FERC orders and technical conference materials relating to market monitoring in California;
- (3) Soliciting the input of FERC (Scott Miller) and the States regarding market monitoring;
- (4) Fully evaluating any proposed refinements to the Stage 1 decisions (including cost information, liability implications, etc.); and
- (5) Updating the market monitoring reference information developed as part of Stage 1.

III. Proposed Work Plan/Schedule

	Start Date	Completion Date
Content Group – Resolve CREPC Issue	2/2/01	3/1/01
Content Group – Evaluate Lessons Learned/Evolution of Market Monitoring/Prepare Recommendations re Refinements, If Appropriate	2/2/01	3/1/01
RRG – Act on Recommendations of Content Group, if any (if Changes are Made to Stage 1 Decisions, Will Need to Make Appropriate Modifications to Work Plan/Schedule)	3/1/01	3/15/01
Content Group – White Paper Regarding Market Monitoring Plan Based on Stage 1 Decisions (Including Developing Remaining Detail)	2/2/01	3/15/01
Tariff Integration Group – Draft Appendix	3/15/01	4/1/01
Content Group – After Final Details of RTO West Markets are Finalized, Revisit Draft Appendix to Determine Whether Adjustments or Further Details are Necessary	5/15/01	6/1/01
Tariff Integration Group – Finalize Appendix	6/1/01	6/8/01
Filing Utilities Principals – Review of Integrated Package	6/8/01	6/19/01

IV. Assignments

Attachment 1
“Attachment O” to Stage 1 10/23 Filing

DESCRIPTION OF RTO WEST
MARKET MONITORING

A. Organization

- 1) Market Monitoring Unit (“MMU”) is part of the RTO organization.
 - a) Board appoints, supervises, evaluates, disciplines the MMU Executive.
 - b) MMU Executive hires, supervises, evaluates, disciplines the MMU staff.
- 2) MMU coordinates with the RTO CEO, but in some instances, reports directly to the Board (see D below).
- 3) Institutional safeguards will be designed to ensure an appropriate level of MMU independence, especially in instances where the RTO is a market participant and procedural safeguards are designed to protect all participants.

B. Markets to be Monitored

- 1) MMU will monitor RTO Markets, including Ancillary Services, Congestion Management and Firm Transmission Rights.
- 2) MMU will assess and report annually on the state of the Western markets highlighting the impacts of these non-RTO markets on RTO operations and vice versa (not the same level of analysis as with RTO Markets); further, the RTO will be given the discretion to expand the scope and level of its monitoring of non-RTO markets as it finds appropriate.

C. Scope of Activity of MMU

MMU¹ will:

- 1) collect information as part of the regular course of RTO business;
- 2) assemble such information (in a manner to be developed as part of the “MMU process”);
- 3) disseminate (as provided in the yet-to-be developed “MMU process”) non-confidential information; provided that sensitive bid data shall be disseminated in compliance with current FERC and RTO standards and policies (6 month lag time, masked identities);
- 4) evaluate the information;
- 5) make recommendations to correct design flaws and improve efficiencies;
- 6) if MMU detects market performance that is inconsistent with competitive market, investigate further to determine the cause of the inconsistent performance;
- 7) consider operational behavior in response to a submitted complaint;
- 8) prepare reports (including recommendations) for Board;

¹ Tariff compliance issues will be addressed as set out in the RTO Tariff (or by a RTO Tariff Compliance Office).

- a) the Board will make decisions whether to report to the appropriate regulatory or enforcement entities that MMU has detected and investigated the cause of market performance that is inconsistent with competitive markets; and
- b) the regulatory or enforcement entity will determine how to deal with the issues.

D. Scope of Authority

- 1) With regard to its general monitoring responsibilities, including dealing with design flaws and efficiency improvements:
 - a) The MMU coordinates with appropriate RTO staff members and attempts to address matters at staff level
 - b) If the MMU believes that staff is not cooperating, the MMU has recourse up the chain of command in the following order:
 - (i) Chief Operating Officer,
 - (ii) Chief Executive Officer, and
 - (iii) the Board
 - c) If issues are raised to the Board, the Board can bring whatever resources to bear that it finds appropriate, including outside consultants
- 2) If the MMU detects market performance that is inconsistent with competitive markets it will investigate to determine the cause. The MMU will coordinate with appropriate RTO staff members and will bring the issue to the CEO's attention but, as detailed below, the Board must ultimately decide whether to report the market performance to the appropriate regulatory agency.
 - a) When the MMU and the CEO (or designee) agree to recommend reporting, the CEO brings recommendation to Board
 - b) When the MMU recommends reporting but the CEO (or designee) disagrees, the MMU can bring directly to Board
 - c) When the CEO (or designee) recommends reporting but the MMU disagrees, the CEO (or designee) can bring directly to Board
 - d) When the MMU is put on notice of market performance issues, but the MMU and the CEO (or designee) agree that it should not be reported to a regulatory agency, the CEO makes a report to the Board

E. Specifics of Market Monitoring Mechanism

The process must:

- 1) Achieve work group goals;
- 2) Afford procedural protections to all participants;
- 3) When data alerts the MMU of market performance inconsistent with a competitive market, as part of the follow-up investigation, if individual conduct is evaluated, the process should, at a minimum, specify when and how a party should be notified, address confidentiality issues, and set a standard for how the RTO decides when to report to regulatory agency;

- 4) Accommodate differing jurisdictional requirements for market participants and transmission owners (in particular with respect to Canadian participants);
- 5) Provide more specifics regarding the information that will be collected and maintained by the MMU (at this time it is assumed that the needed information will already be provided to the RTO in the ordinary course of business);
- 6) Provide more specifics regarding the annual report regarding non-RTO markets;
- 7) Provide specifics regarding maintenance and dissemination of information (provided, sensitive bid data will only be released in conformance with current FERC standards/policy);
- 8) Provide guidance on how the MMU professional staff will objectively evaluate market performance to identify performance that is inconsistent with a competitive market and investigate the causes of such performance (industry standards should be described or identified that could be considered by the MMU staff to aid their professional judgment);
- 9) Provide that the RTO does not have superior access to work product of the MMU to avoid conflict of interest issues;
- 10) Provide the Board the ability (after it has complied with procedural safeguards) to act quickly (and with FERC approval) to change the RTO's rules and market design as appropriate after consideration of the MMU/staff recommendations regarding design flaws or market inefficiencies, especially in the first few years of the RTO's existence;
- 11) Establish communication protocols among MMU and other units of the RTO staff;
- 12) Not distinguish between the RTO and other market participants for purposes of the process (the RTO gets the same treatment as others);
- 13) Provide for an annual evaluation of the RTO's design's impact on the market; and
- 14) Be timely and cost effective.

F. Staff

The MMU will have the following areas of expertise represented on its staff: economics, business/commercial (e.g., risk management, commodities, electric power system operation and markets), finance, engineering, statistics, data management, and legal. These will not all be full-time positions. In addition, the MMU will have the ability to retain outside consultants.

Attachment 2
E-Mails Regarding CREPC Issue

Subject:
RE: RTO West - Market Monitoring Group
Date:
15 Sep 2000 14:19:29 -0700
From:
CARVER Philip H <Philip.H.Carver@state.or.us>
To:
[Market Monitoring Group]

The CREPC Market Evaluation Task Force, which met yesterday in Las Vegas, asked me to add the following to the market monitoring functions.

Add Under "C. Scope of Activity of MMU" Perhaps after the 4th bullet
"Provide information to regulatory and enforcement agencies of states, provinces and the federal government, as requested. Confidential information would only be supplied if the agency agreed to keep it confidential."

This reflects what has been happening in California. If this is a problem, please suggest alternative language or call me.

Subject:

Re: RTO West - Market Monitoring Group

Date:

Fri, 15 Sep 2000 14:58:16 -0700

From:

Kristi Wallis <kristiwallis@sprintmail.com>

Organization:

Law Offices of KMW

To:

DHackett@kemaconsulting.com

CC:

gmarsh@puget.com, paula.green@ci.seattle.wa.us, lwolv@worldaccessnet.com,
wgibson@nwppc.org,
philip.h.carver@state.or.us, cfi1@tca-us.com, steve@nwenergy.org,
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pfeldberg@lawsonlundell.com, sawatson@bpa.gov, Michele_Farrell@pgn.com,
JBoucher@kemaconsulting.com, richard_goddard@pgn.com,
smiller@puc.state.id.us,
dws@keywaycorp.com,

References:

1

Hello!

I am attaching an excerpt from an e-mail I just received from Phil Carver as I am not sure all of you received it. Here it is:

The CREPC Market Evaluation Task Force, which met yesterday in Las Vegas, asked me to add the following to the market monitoring functions.

Add Under "C. Scope of Activity of MMU"

Perhaps after the 4th bullet "Provide information to regulatory and enforcement agencies of states, provinces and the federal government, as requested. Confidential information would only be supplied if the agency agreed to keep it confidential."

This reflects what has been happening in California. If this is a problem, please suggest alternative language or call me.

Phil, thanks for the input! I have a question -- would the regulatory and enforcement agencies be able to ask for anything in the RTO's possession or just the same information that they are currently have access to (maybe there is not any difference.) Another way of stating my question is does the language reflect the status quo regarding the agencies'

ability to get information or expand it? (I'm only asking this by way of clarification, not to imply a preference or position.)

Thanks! Kristi

Subject:

RE: RTO West - Market Monitoring Group

Date:

15 Sep 2000 14:59:18 -0700

From:

CARVER Philip H <Philip.H.Carver@state.or.us>

To:

gmarsh@puget.com

CC:

kristiwallis@SprintMail.com

Thanks, George, for you questions and your quick reply.

If the information were not a trade secret under state law and the agency could not keep it confidential, then the RTO MMU would not release it to the agency. This would likely result in a request from the state to the FERC to clarify what RTO information is confidential.

The issue with the EHV data is that it is already released to all market participants in WSCC, and therefore cannot possibly be a trade secret or proprietary and could not be protected under Oregon's freedom of information law.

On the Canadian issue: If the Canadians are not part of RTO West, I agree the references to "provinces" should be removed. It was my last information that at least B.C. would likely be a part of RTO-West.

>>> GMarsh@puget.com 09/15/00 02:42PM >>>

Phil: how can a public agency agree to do that? Wasn't this the same problem with the WSCC EHV data, namely, that the data providers said if confidentiality couldn't be guaranteed, they would stop providing the data? Also, since the Canadians aren't a part of this yet, doesn't giving them access to the data make things a little one-sided?

E: RTO West - Market Monitoring Group

Date:

Fri, 15 Sep 2000 16:54:44 -0500

From:

"Carl Imparato" <cimparat@enron.com>

To:

CARVER Philip H <Philip.H.Carver@state.or.us>

[Market Monitoring Group]

Phil,

I've not been participating in the Market Monitoring Group activities directly, so it's possible that my comment below is off base. My concern with the language that CREPC has proposed is that it may be overreaching. If the states, provinces, etc. have jurisdiction over a certain function, then I have absolutely no problem with the RTO providing the associated data. But if they do not, then I do not think it is appropriate for the RTO to provide the requested data.

My view of the California experience is that some state agencies that have no legitimate role in wholesale markets are interfering with the operation of the wholesale market and making matters far, far worse (and politicizing issues as well, for very very bad reasons). I would not like to see the development of the marketplace in the west stymied by the same type of local politics; so I question whether it is appropriate for the RTO to adopt a global "we'll hand over all of the data to any agency that wants it" policy. At a minimum, I would change the language that was proposed below to something like:

"Provide information, AS REQUESTED, to THOSE regulatory and enforcement agencies of states, provinces and the federal government WHOSE JURISDICTIONAL AUTHORITY REQUIRES ACCESS TO SUCH INFORMATION. Confidential information would only be supplied if the agency agreed to keep it confidential."

If you need to reply, please reply to cfi1@tca-us.com (where the 4th character is the number 1, not the letter l) rather than to the address from which I sent this e-mail to you, since I will not be able to access replies sent to this address.

Carl

Subject:

Re: RTO West - Market Monitoring Group

Date:

15 Sep 2000 15:04:42 -0700

From:

CARVER Philip H <Philip.H.Carver@state.or.us>

To:

kristiwallis@SprintMail.com

As drafted it would not have that limitation. I think Carl's suggested language moves in that direction. CREPC is reviewing Carl's suggested text.

Phil Carver

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